Acklands

1978
Annual Report

Acklands' Business

Acklands is Canada's leading independent merchandiser of automotive replacement parts and industrial products. Nearly eighty-five percent of the company's business is in the distribution and marketing of automotive aftermarket products and in the related industrial equipment and supplies field. Canada's "aftermarket" is comprised of the parts and equipment needed to service and maintain passenger vehicles, industrial, marine and outdoor power equipment. The company operates from a national network of warehouse distribution centres, wholesale automotive jobbing outlets and its wholesale/retail chain of company owned and affiliated Bumper to Bumper auto parts stores.

The balance of Acklands' sales is derived from the marketing and distribution of leisure, home entertainment and electronics products. Acklands employs nearly 3,300 people and supplies customers from 295 sales centres in cities and towns throughout Canada.

Annual Meeting

The Annual Meeting of Acklands Limited will be held on Thursday, May 3, 1979 at 2:00 p.m. in the Concert Hall of the Royal York Hotel, 100 Front Street West, Toronto, Ontario, Canada.

Contents

Pour un exemplaire du présent rapport en français, veuillez vous adresser au Siège administratif d'Acklands.

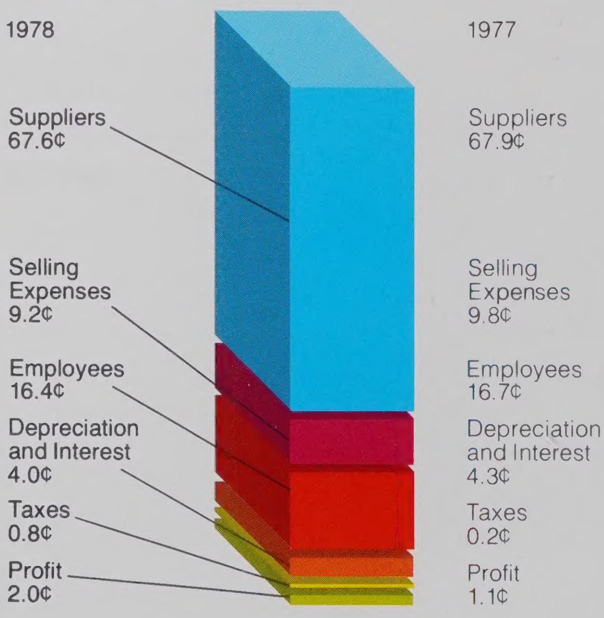
This report is available in French. For a copy, please contact the Executive Office of Acklands.

President's Report

Financial Highlights

	1978	1977
*Sales	**$ 292,826,104**	$ 280,446,097
Income before taxes and extraordinary item	**8,145,649**	3,706,664
Income after taxes		
Including extraordinary item	**5,801,919**	3,127,978
Before extraordinary item	**4,545,036**	3,055,060
Earnings per common share—primary		
Before gain on sale of fixed assets and extraordinary item	**1.48**	.54
Gain on sale of fixed assets (net of income taxes)	**.24**	.59
Income before extraordinary item	**1.72**	1.13
Net income	**2.22**	1.16
Dividends paid		
Preference shareholders	**207,043**	215,155
Common shareholders	**1,209,387**	1,208,997
Dividends paid per common share	**.48**	.48
Shareholders' equity	**48,073,300**	43,674,811
Equity per common share	**17.71**	15.97
Total assets	**187,691,986**	168,677,301

*Before eliminating sales of closed branches



Distribution of the 1978 Sales Dollar

In 1978, Acklands achieved a major turnaround in earnings. Overall performance was much better in all provinces. The company also successfully launched a retail auto parts program, one of the most significant steps it has ever taken.

Automotive parts and industrial products accounted for Acklands' 1978 sales increase. Sales volume for this product group rose seven per cent over the previous year, before eliminating sales related to closed branches. Leisure product sales remained about even and the electronics and home entertainment product group sustained an 18 per cent reduction in volume.

The Long Term Plan

During the last three years, Acklands has undergone considerable change. The Company closed 103 branch operations but at the same time opened 50 new outlets. A number of wholesale automotive jobbing branches were sold to independents on a warehouse-associate basis. Divisions have been eliminated and unprofitable subsidiaries sold. Warehouses have been amalgamated and many product lines dropped. The company has moved into the merchandising of auto parts to self-installers and concentrated its efforts on automotive and industrial sales. These moves are all part of a corporate plan which has one objective: to obtain a greater return on investment.

The strategy to achieve this objective has many aspects. Among them:

☐ Increase the efficiency of assets, primarily inventories. Stock on hand accounts for 50 per cent of total assets. A broad range of products helps generate sales volume, but our inventory to sales ratio is high and the cost of financing inventories takes up a large percentage of overall expenses.

☐ Improve sales per square foot of branch and warehouse facilities. Inflationary pressures are affecting physical distribution more than any other sector of the economy. Real Estate has become very expensive. The operating cost of facilities — the property taxes, the heating and lighting — has had an increasingly greater impact on the company which presently has 27 distribution centres and 268 company-owned branch outlets across the country.

☐ Generate greater sales per individual employed. Ours is a labour intensive industry. More intensive and efficient use of staff is needed to offset the impact of inflation on the corporate wage bill.

☐ Upgrade gross margins. Margins have tended to fluctuate within a narrow range for more than two decades while at the same time both operating costs and capital requirements for efficient physical distribution have soared.

Senior management has spent a considerable amount of time and effort evaluating methods to improve inventory turnover, sales per square foot, sales per employee and gross margins. These issues have, in fact, taken precedence over growth in market share, which was the company's principal objective in the late 60's and early 70's. This shift in corporate strategies reflects the realities of doing business in a tough, inflationary environment.

Nathan Starr, President and Chief Executive Officer. A Director of Acklands for 20 years, appointed Executive Vice-President in 1966, President in 1977 and President and Chief Executive Officer in 1978.

"As a company, our priority is to reposition ourselves from being a strict wholesale distributor to becoming a fully integrated merchandiser."

Implementing the Plan

The most important measure to achieve our corporate aims was the move into combined wholesaling and retailing of auto parts. Although the decision was made nearly five years ago, it took considerable time to evaluate the various options and choose the most effective method for proceeding. Last year, we launched the Bumper to Bumper auto parts program, under which some company-owned stores and independent wholesale jobbing outlets were converted to combination wholesale/retail stores.

Bumper to Bumper enjoyed outstanding success in its first year. A total of 187 stores have already been opened; most of them independents.

In addition, Acklands made further progress with Auto Place. This concept combines retail auto parts sales with service bays. We are also evaluating a retail program for our industrial branches which would convert them into wholesale/retail stores similar to the Bumper to Bumper

strategy. They would merchandise building and electrical supplies, power tools and other home improvement products for the do-it-yourselfer.

The Bumper to Bumper program offers the potential for greater efficiency and better inventory turnover because retail and wholesale customers are supplied out of the same branches and warehouses. Furthermore, programs like Bumper to Bumper are geared to special, short term promotions featuring fast turnover products.

And perhaps most importantly, retailing should improve our margins. Self-installers of auto parts prefer brand name, high quality products which generally carry higher markups. Selling expenses are also lower for retail because of the wholesale combination.

Acklands is also well on its way to becoming fully computerized. After much investigation and experimentation, we have developed a custom-designed program in co-operation with Mohawk Data Systems. It is now operational in parts of Ontario, Manitoba, Alberta and British Columbia.

This new system will help achieve better inventory control and management. It will locate products instantaneously, anywhere within our network, thereby enabling Acklands to reduce, and eventually eliminate, overlap of inventory between various warehouses and branches. Most operations buy certain items independently. The computer program therefore calls for terminals at all branches for remote entry of information. Once the computer system is fully operational, it will offer enormous potential for increased profit and efficiency.

More modern facilities will also play an important part in our long-term strategy. The new distribution centre built last year in Regina is now being followed by an industrial warehouse in Vancouver. Both make use of the latest automated handling equipment and design to increase productivity. Eventually, every location will receive the same attention. This year, Acklands has budgeted a total of five million dollars for capital spending on new facilities and systems, about equal to last year's expenditures.

Acklands is also taking further steps to reduce the number of product lines carried. The policy is to concentrate resources in those lines which provide good gross profits and acceptable volume. Duplication is being reduced and heavier commitments are being made to those lines which meet standard requirements.

One result of this policy is a further emphasis on automotive and industrial operations. In 1978, these two product groups accounted for 85 per cent of total sales, compared to 82 per cent the year before and up from 68 per cent in 1974.

Finally, Acklands is becoming much more marketing conscious. The impact is being felt throughout the company. New sales training methods are being utilized, incentive plans have been implemented for sales staff and new marketing techniques are being developed. This year, our total advertising and promotional budget for Bumper to Bumper alone will exceed $2 million, about triple what was spent in 1977. Both retail and wholesale customers will be the target of new, more ambitious promotion campaigns.

Other Developments

Mackie Data, the company's data processing subsidiary, was sold following the decision to use outside expertise to design the new company-wide computerized information system.

Acklands obtained a $1.3 million contract with the Department of National Defence for supply of Autosense units. Autosense is a computerized auto diagnostic device which compares vehicle performance against manufacturer's specifications. Demand for this unit has been building and additional orders for Autosense have since been received from the Defence Department.

The decline in the Canadian dollar against other currencies affected profit margins in 1978, especially for imported hand tools and equipment from Japan. However, our offshore suppliers provided us with excellent support. Long-term contracts were honoured by both parties and with this co-operation, prices and margins remained relatively stable.

Valuable new people were added to senior management during the year. Our recruiting emphasized the need to increase our merchandising and asset management expertise.

There have also been positive developments at the Board level. At our last annual meeting, Donald J. Wilkins was appointed Chairman of the Board and Philip Ashdown, Donald Boxer and Daniel Casey were appointed to the Audit Committee. Since that time, we have also established a Compensation Committee consisting of Directors Donald Carr, Daniel Casey and Simon Reisman. Several Directors were also assigned the task of reporting to the Executive Committee on the markets of specific divisions.

These developments point to our desire for an active Board which utilizes the outstanding talent of its members. Having Directors participate in areas of special concern also increases their knowledge of operations, thereby strengthening their ability to provide independent counsel on the future direction of the company.

The Challenge of the Future

The markets in which Acklands operates are solid and growing. But there are also some serious challenges which must be met in the longer term.

For automotive and industrial products, we are now entering a period of incredible proliferation. New technology is resulting in continuous re-design of both the automobile and industrial equipment. More strict government regulations on safety, pollution and energy conservation are playing an important part in this rapid change.

During the next decade, the typical warehouse distributor of auto parts will need to carry an additional 40 to 50,000 part numbers, many of which will be applicable to a single model before being superseded by a superior product. Nonetheless, the motorist will require us to maintain stocks of these superseded items and their successors for years to come, especially now that consumers are holding on to their cars longer.

The challenge of accelerated obsolescence must be met in such a way as to minimize the impact on our costs while maximizing sales opportunities. Acklands is beginning to plan now for these developments. Management and financial skills will be tested. Managers and sales personnel will have to master the new technologies so that they can advise and guide dealer and industry accounts in their purchasing requirements. Many distributors will not be able to cope with these demands, which spell opportunity for those that do adjust to a rapidly changing market environment.

Responding to Government

Acklands is actively encouraging the idea of periodic motor vehicle inspection. Until now, government regulations on safety, fuel economy and emissions have concentrated on the new automobile. However, this emphasis must now shift to an equivalent concern with older cars, especially as our vehicle population continues to age. No program of auto safety, pollution abatement and energy conservation can be complete without a policy designed to check the safety and upgrade the performance of second-hand cars and trucks.

The company is following closely the federal government's planned shift of the manufacturer's sales tax to the wholesale level. We have argued strongly that the tax should be moved to the retail level so that it will no longer be hidden from the consumer. Furthermore, a retail tax would remove the inequities that would arise from the arbitrary calculations required to levy a wholesale tax on the many products which flow directly from the producer to the retailer.

Outlook

Management is excited about the prospects for 1979 and beyond. Preliminary first quarter results are promising. Both sales and profits are trending upward.

The market for automotive parts and industrial products is stronger than ever. Our leisure divisions are now in better shape and three years of consolidation and reorganization have strengthened the company's branch network right across the country. The outlook for television and electronics sales is improving and this product group is expected to do better in the current year.

Acklands' investment in management time and advertising dollars in the Bumper to Bumper program was rewarding in 1978 and we expect to realize greater benefits this year. Most locations are still less than six months old and have not yet built up market awareness or a stable customer base. However, by the end of the current year, we expect Bumper to Bumper to make a sizeable contribution to the bottom line.

I thank our customers and suppliers, employees and shareholders for their support. All of us can look forward to another year of improvement.

Nathan Starr

Nathan Starr
President and Chief Executive Officer

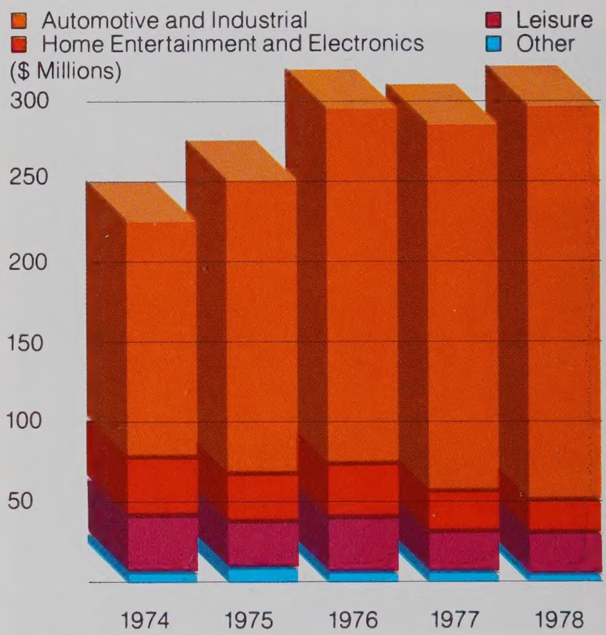
Toronto, Canada
March 1, 1979

Analysis of Sales

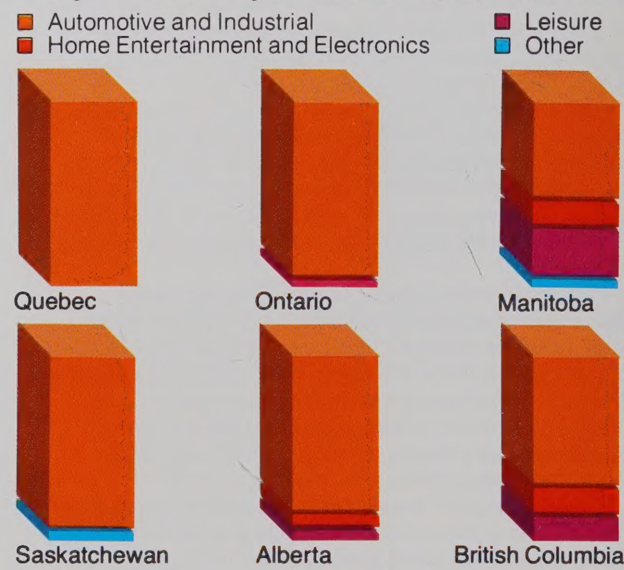
George Forzley, Senior Vice-President and Chief Operating Officer. Associated with Acklands for 38 years; accountable for all operations and oversees corporate marketing and merchandising.

"At the operating level the emphasis is on gross profit and cost efficient sales, particularly by making greater use of new computer and product handling technology."

Analysis of Sales by Product Group



Analysis of Sales by Product Group by Province



Financial Review

Sales and Earnings

Both sales and profits improved for Acklands in 1978.

Consolidated sales, after eliminating results from closed branches, were $288.2 million, up nearly $30 million, or 11 per cent, over 1977. Sales and selling costs for both 1978 and 1977 were restated to eliminate the results of closed branches and reflect the company's ongoing operations only.

Sales of closed branches were $4.6 million, compared to $21.8 million the previous year. Total sales volume, including operations shut down in 1978, was $292.8 million.

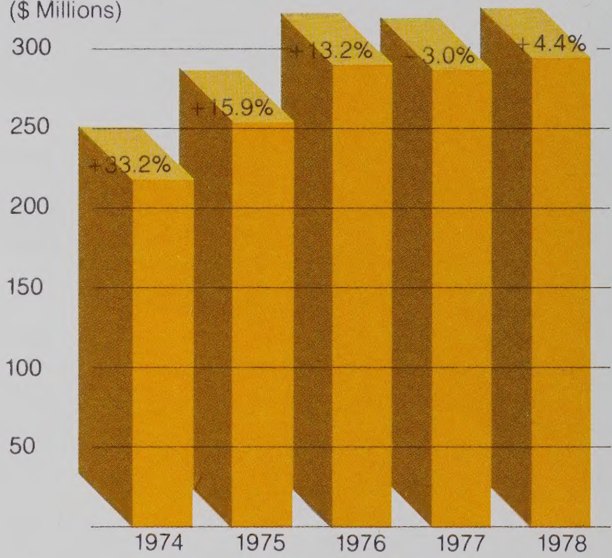
Pre-tax earnings from operations were $7.3 million after deducting losses of over $1.0 million associated with closed branches. Profit for 1978 increased 300 per cent over the $1.7 million pre-tax profit from operations achieved the year before. Gain from the sale of fixed assets brought total pre-tax income to $8.1 million. Most of the gain was generated through the sale of redundant property resulting from branch closures in 1977 and 1978.

Net income, including the gain on the sale of fixed assets and an extraordinary item, was $5.8 million, or $2.22 per share, compared to $3.1 million, or $1.16 per share, in 1977. Earnings per share from operations were $1.48, nearly triple the 54¢ (restated) realized in 1977.

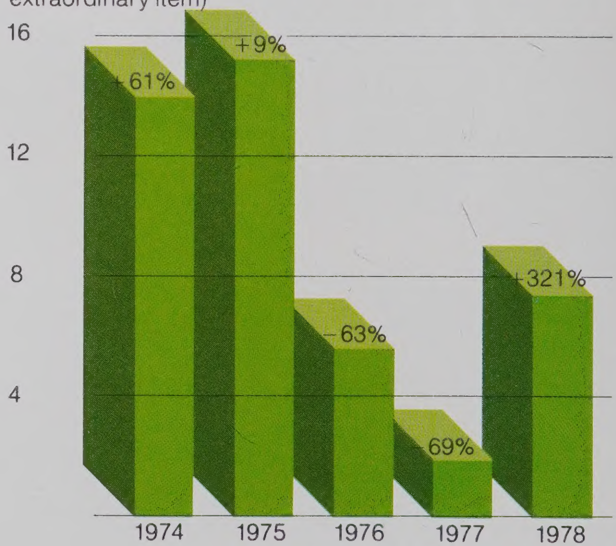
Earnings Summary
($ Millions)

	1978	1977	1976	1975	1974
Net income from operations	**3.9**	1.6	3.0	6.6	6.6
Less preferred dividends	**.2**	.2	.2	.3	.3
Net income from operations available to common shareholders	**3.7**	1.4	2.8	6.3	6.3
Earnings per share from operations	**$1.48**	.54	1.11	2.57	2.57
Earnings per share including gain on sale of fixed assets and extraordinary item	**$2.22**	1.16	1.28	2.99	3.13

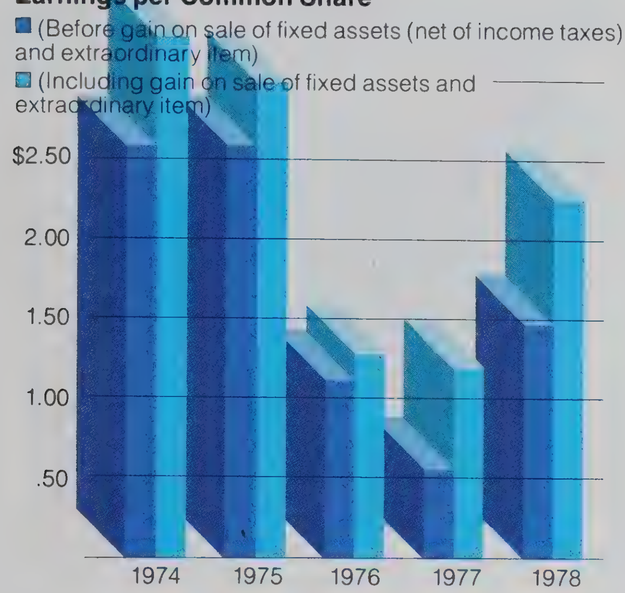
Sales
(Before eliminating sales of closed branches)
($ Millions)



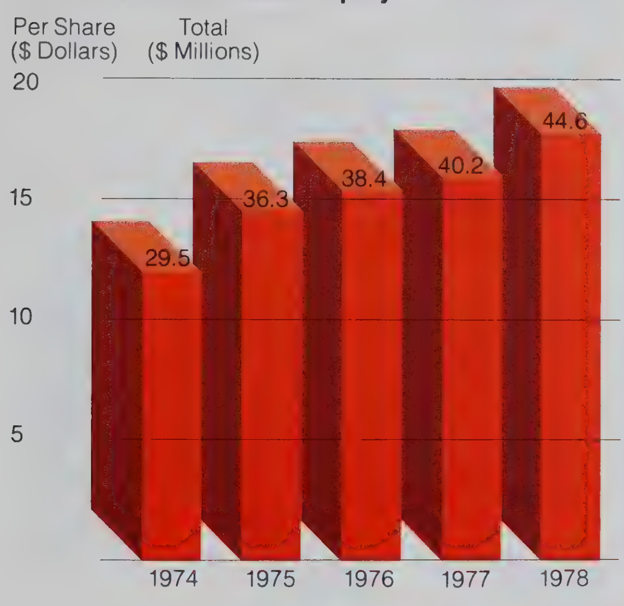
Pre-Tax Income from Operations
(Before gain on sale of fixed assets and extraordinary item) ($ Millions)



Earnings per Common Share



Common Shareholders' Equity



Sales by Product Group
($ Millions)
(before eliminating sales of closed branches)

	1978	1977
Automotive and Industrial	**248.8**	231.6
Leisure	**23.2**	22.9
Electronics and Home Entertainment	**18.2**	22.1
Other*	**2.6**	3.8
Total	**292.8**	280.4

Pre-Tax Income by Product Group
($ Millions)
(after allocation of Corporate Costs)

	1978	1977
Automotive and Industrial	**6.9**	2.0
Leisure	**.4**	(.2)
Electronics and Home Entertainment	**(.3)**	(.5)
Other*	**1.1**	2.4
Total	**8.1**	3.7

Inventory by Product Group
($ Millions)

	1978	1977
Automotive and Industrial	**79.3**	71.2
Leisure	**5.9**	6.2
Electronics and Home Entertainment	**6.6**	6.4
Other*	**.4**	.4
Total	**92.2**	84.2

Receivables by Product Group
($ Millions)

	1978	1977
Automotive and Industrial	**41.9**	36.4
Leisure	**6.7**	5.8
Electronics and Home Entertainment	**2.2**	2.9
Other*	**3.3**	3.0
Total	**54.1**	48.1

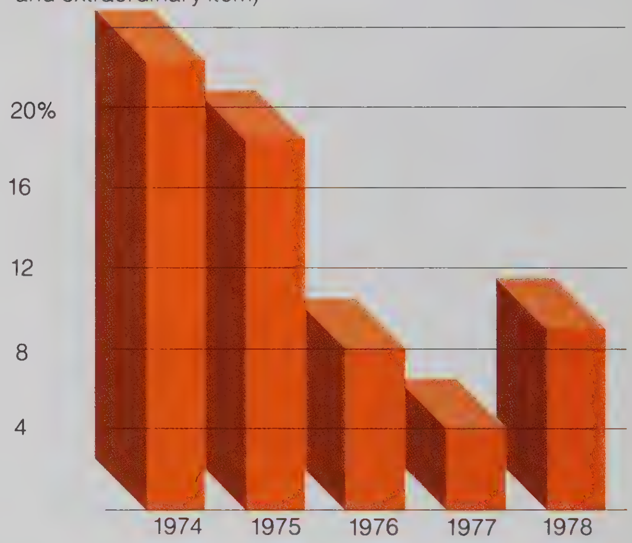
*Note: "Other" includes Acklands Leasehold Properties (Real Estate Management Subsidiary), Westward Investments (wholly-owned finance company) and miscellaneous branch operations.

Financial Position

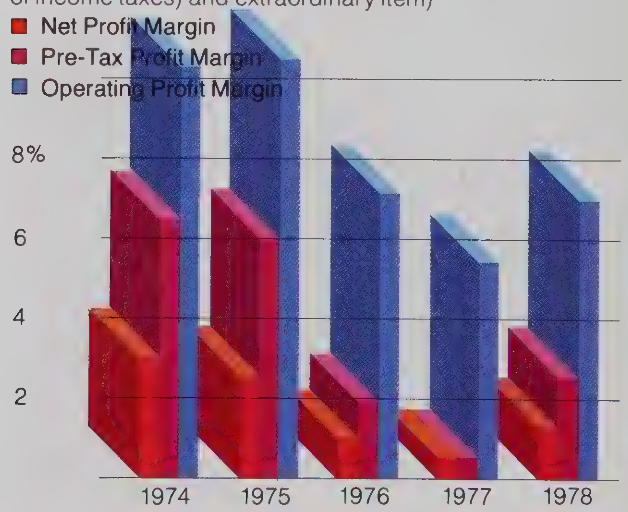
Working capital at year end amounted to $46.8 million compared to $46.2 million in the previous year. The current ratio declined slightly to 1.43:1 from 1.51:1 at November 30, 1977. Long-term debt was reduced by $3.6 million through normal principal payments.

Cash flow from operations amounted to $8.3 million and the proceeds from the sale of fixed assets generated $2.1 million. Capital expenditures were $4.9 million and allocated primarily to build new facilities and improve existing locations.

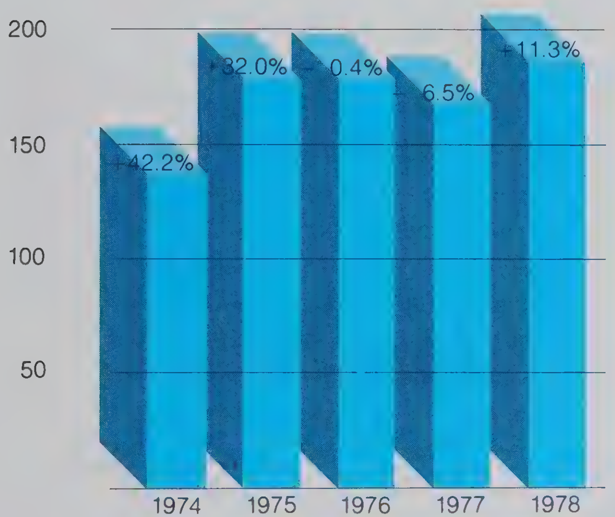
Return on Common Shareholders' Equity
(Before gain on sale of fixed assets (net of income taxes) and extraordinary item)

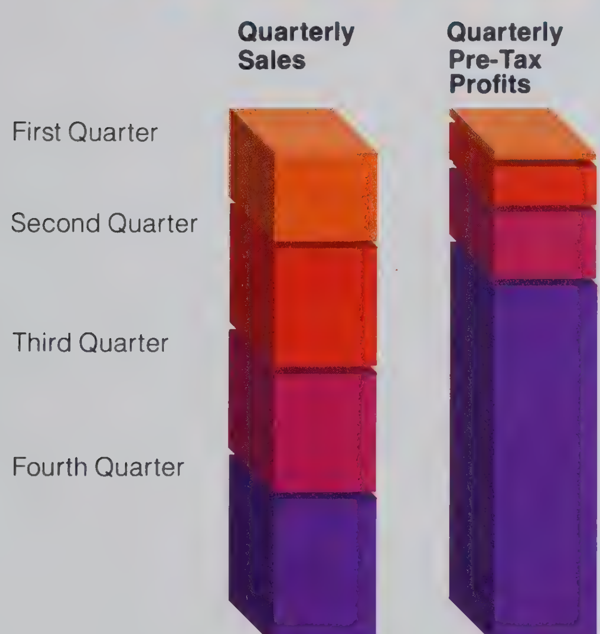


Profit Margins
(Before eliminating sales and selling costs of closed branches and before gain on the sale of fixed assets (net of income taxes) and extraordinary item)



Growth of Total Assets
($ Millions)





Common Shareholders' Equity

At year end, equity per common share was $17.71, compared to $15.97 in 1977, an 11 per cent increase.

Common Shareholders' Equity
($ Millions)

	1978	1977
Total shareholders' equity	**48.1**	43.7
Less		
Value of preferred shares	**3.5**	3.5
Common Equity	**44.6**	40.2
Equity per common share	**$ 17.71**	15.97

Common shareholders' equity rose by $4.4 million to $44.6 million. Return on equity (restated) improved from 3.9 per cent last year to 8.8 per cent in 1978.

Return On Common Shareholders' Equity
($ Millions)
(before gain on sale of fixed assets (net of income taxes) and extraordinary item)

	Equity	Return	Percentage
1978	44.6	3.9	8.8%
1977	40.2	1.6	3.9%
1976	38.5	3.0	7.9%
1975	36.4	6.6	18.3%
1974	29.5	6.6	22.5%

Capitalization

(Long-Term Debt and Shareholders' Equity)

Total capitalization at year end was $79.1 million. The per cent of debt capital to total capital declined from 44 per cent to 39 per cent over the last twelve months. Common shareholder equity now stands at 56 per cent of total capitalization.

Capitalization at Year-End

	$ Millions		Percentage	
	1978	1977	**1978**	1977
Common Equity	**44.6**	40.2	**56.4**	51.5
Preferred Stock	**3.5**	3.5	**4.4**	4.5
Long-Term Debt	**31.0**	34.4	**39.2**	44.0
	79.1	78.1	**100.0**	100.0

Acklands' debt (including the value of preferred stock) to common shareholder equity ratio at year end was .77:1 compared to .94:1 last year.

Interest Expense

In 1978 interest expense decreased by nearly $400,000. This was a result of a reduction in long-term debt.

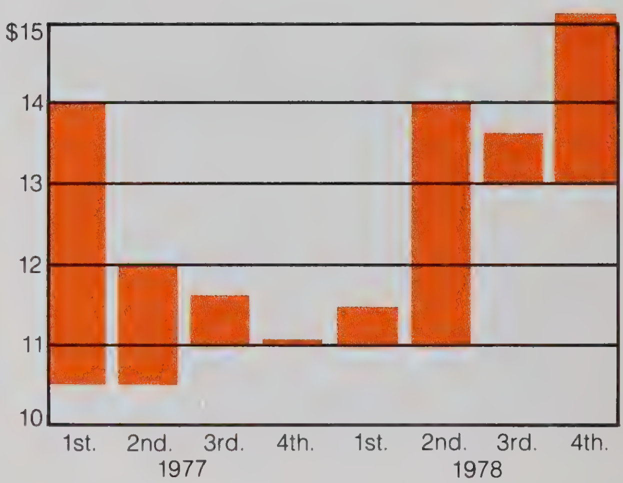
Dividends

Dividends paid on the company's common stock were 48¢ per share or $1.2 million. The preferred dividend was 96¢ per share. Both dividend rates were equal to the amount paid in the previous year.

At year end, the number of common shares outstanding was 2.5 million, slightly higher than the previous year due to the conversion of convertible debentures.

Market Price of Common Stock

(Quarterly) High and Low



Consolidated Financial Statements

Acklands Limited

Auditors' Report

To the Shareholders of
Acklands Limited

We have examined the consolidated balance sheet of Acklands Limited as at November 30, 1978 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.
Chartered Accountants

Winnipeg, Canada
January 29, 1979

Consolidated Statement of Income

Year ended November 30, 1978

Acklands

	1978	1977
Sales	**$288,195,502**	$258,644,371
Cost of sales, selling and administrative expenses before the following	**267,025,954**	240,819,097
	21,169,548	17,825,274
Deduct		
Depreciation	**1,952,064**	2,012,865
Interest on long-term debt	**3,548,402**	3,991,262
Other interest	**6,209,724**	6,135,718
Amortization of goodwill	**120,774**	272,787
Remuneration of directors and senior officers	**1,038,148**	1,000,420
	12,869,112	13,413,052
	8,300,436	4,412,222
Gain on sale of subsidiary company	**61,683**	
Gain on sale of fixed assets	**799,991**	1,960,640
Losses of closed branches (sales $4,630,602; $21,801,726 in 1977) (Note 10)	**(1,016,461)**	(2,666,198)
	(154,787)	(705,558)
Income before income taxes and extraordinary item	**8,145,649**	3,706,664
Income taxes (Note 7)		
Current	**2,115,419**	1,128,583
Deferred (reduction)	**1,485,194**	(476,979)
	3,600,613	651,604
Income before extraordinary item	**4,545,036**	3,055,060
Income tax reduction realized on the application of prior years' losses	**1,256,883**	72,918
Net Income	**$ 5,801,919**	$ 3,127,978
Earnings per share (Note 8)		
Income before gain on sale of fixed assets and extraordinary item	**$ 1.48**	$ 0.54
Gain on sale of fixed assets (net of income taxes)	**0.24**	0.59
Income before extraordinary item	**1.72**	1.13
Net income	**2.22**	1.16

Acklands Limited

(Incorporated under the laws of Manitoba)

Consolidated Balance Sheet

As at November 30, 1978

Assets

	1978	1977
Current Assets		
Cash	$ 6,926,881	$ 3,934,787
Accounts receivable	54,125,718	48,112,765
Inventories	92,179,556	84,225,432
Prepaid expenses	347,134	267,898
	153,579,289	136,540,882
Other Assets		
Investment in 50% owned companies	1,096,738	791,027
Mortgages and lien notes receivable and other investments, at cost	2,221,196	2,024,191
	3,317,934	2,815,218
Fixed assets (note 2)		
Land, buildings, equipment and leasehold improvements	45,351,759	42,858,208
Less accumulated depreciation	15,152,324	14,300,795
	30,199,435	28,557,413
Intangibles		
Deferred expenses	353,782	401,468
Goodwill	241,546	362,320
	595,328	763,788
	$187,691,986	$168,677,301

Liabilities

	1978	1977
Current Liabilities		
Bank advances (note 3)	$ 57,631,000	$ 53,939,000
Accounts payable and accrued liabilities	44,028,185	31,667,722
Income and other taxes payable	2,095,281	1,518,669
Principal due within one year on long-term debt	3,024,243	3,254,936
	106,778,709	90,380,327
Long-Term Debt (note 4)	31,040,747	34,362,510
Deferred Income Taxes	1,604,920	123,726
Minority Interest	194,310	135,927

Shareholders' Equity

Capital Stock (note 5)	15,395,223	15,382,223
Contributed Surplus	649,935	649,935
Retained Earnings	32,028,142	27,642,653
	48,073,300	43,674,811
	$187,691,986	$168,677,301

Contingent Liabilities and Commitments (note 6)

Approved by the Board

Nathan Starr, Director

George Forzley, Director

Consolidated Statement of Retained Earnings

Year ended November 30, 1978

	1978	1977
Balance at beginning of year	$ 27,642,653	$ 25,938,827
Net income	5,801,919	3,127,978
	33,444,572	29,066,805
Deduct		
Dividends on		
Second preference shares	207,043	215,155
Common shares	1,209,387	1,208,997
	1,416,430	1,424,152
Balance at end of year	**$32,028,142**	$27,642,653

Consolidated Statement of Contributed Surplus

Year ended November 30, 1978

	1978	1977
Balance at beginning of year	$ 649,935	$ 597,793
Discount on purchase and cancellation of preference shares		52,142
Balance at end of year	**$ 649,935**	$ 649,935

Consolidated Statement of Changes in Financial Position

Acklands

Year ended November 30, 1978

	1978	1977
Working capital derived from		
Operations	$ 8,314,159	$ 2,619,762
Proceeds from sale of fixed assets	2,092,207	5,191,204
Issue of common shares on conversion of debentures and preference shares	13,000	3,000
Proceeds from sale of subsidiary company	100,000	
Dividends received from 50% owned companies		770,000
Increase in minority interest	82,110	
Reduction of mortgages receivable and other investments	401,207	
Increase in long-term debt	279,527	2,812,299
	11,282,210	11,396,265
Working capital applied to		
Additions to fixed assets	4,886,302	4,381,647
Reduction of long-term debt	3,601,290	4,957,916
Dividends	1,416,430	1,424,152
Investment in 50% owned companies	16,881	81,584
Purchase of minority interest in subsidiary companies	23,070	1,935
Purchase of second preference shares		144,658
Increase in mortgages receivable and other investments	698,212	487,225
	10,642,185	11,479,117
Increase (Decrease) in working capital	640,025	(82,852)
Working capital at beginning of year	46,160,555	46,243,407
Working capital at end of year	$46,800,580	$46,160,555

Notes to Consolidated Financial Statements

Year ended November 30, 1978

1. ACCOUNTING POLICIES

(a) Principles of consolidation
The consolidated financial statements include the accounts of all subsidiary companies. The operating results of all subsidiaries are included in the consolidated financial statements from the dates of acquisition and are accounted for as purchases.

(b) Inventories
Inventories are valued at the lower of cost and net realizable value.

(c) Investment in 50% owned companies
It is the company's practice to include in income its equity in net earnings of companies 50% owned and to reflect in the investment account its equity in undistributed earnings.

(d) Fixed assets
Fixed assets are stated at cost. Depreciation is recorded on a basis to amortize the cost of fixed assets over their estimated useful lives and the rates applied are substantially as follows

Buildings	2% Straight-line
Equipment, other than automotive	10% Straight-line
Equipment, automotive	30% Diminishing balance
Leasehold improvements	Over the unexpired terms of the lease

(e) Deferred expenses
The costs of issuing the 11½% First Mortgage Bonds, Series B, and the cost of acquiring certain leasehold rights have been deferred. These costs are being amortized on a straight-line basis as a charge against income over the terms of the debt and the lease respectively.

(f) Goodwill
The excess of the cost over the net identifiable asset values, designated as goodwill, is recorded as an asset and amortized on a straight-line basis as a charge against income over periods not exceeding forty years.

2. FIXED ASSETS

	1978			1977
	Cost	**Accumulated depreciation**	**Net**	**Net**
Land	**$ 5,241,607**		**$ 5,241,607**	$ 4,045,331
Buildings	**20,397,480**	**$ 3,921,389**	**16,476,091**	16,246,396
Equipment	**16,337,107**	**9,964,820**	**6,372,287**	6,375,348
Leasehold improvements	**3,375,565**	**1,266,115**	**2,109,450**	1,890,338
	$45,351,759	**$15,152,324**	**$30,199,435**	**$28,557,413**

3. BANK ADVANCES

Bank advances are secured by the assignment of accounts receivable, a first floating charge on inventories and a junior floating charge on other assets.

4. LONG-TERM DEBT

	1978	1977
Acklands Limited		
Note payable, with interest at prime bank rates, payable $140,000 April 7 annually to 1981	$ 420,000	$ 560,000
7½% Unsecured Convertible Debentures, Series A, maturing June 15, 1988, having a sinking fund requirement of $500,000 per annum	6,438,000	6,950,000
11½% First Mortgage Bonds, Series B, maturing May 15, 1990, payable $1,600,000 May 15 annually to 1980 (see below)	20,200,000	21,800,000
Notes payable, with varying interest rates and maturities to 1984	353,571	1,015,140
Subsidiaries		
6% to 12% Mortgages, agreements and notes payable in monthly instalments	6,653,419	7,292,306
	34,064,990	37,617,446
Less principal included in current liabilities	3,024,243	3,254,936
	$31,040,747	$34,362,510

Principal due within each of the next five years is as follows:

1979	$3,024,243
1980	2,440,557
1981	2,001,872
1982	1,878,122
1983	1,867,645

Each holder of 11½% First Morgage Bonds may tender such bonds for maturity on May 15, 1980 at its option if an irrevocable election is made by such holder after May 15, 1979 but before November 30, 1979. The effect of bondholders making such an election has not been reflected in the principal payments due in 1980. After May 15, 1980, principal payments equal to 6.4% of the then outstanding principal are required.

5. CAPITAL STOCK

(a) Authorized and issued

	Authorized		Issued	
	Shares	Amount	Shares	Amount
Non-voting second preference shares issuable in series	$ 842,647	$13,482,352		
Series A $0.96 cumulative, convertible and redeemable at $17 per share	216,164	3,458,624	215,670	$ 3,450,720
Common shares without par value	3,864,299	$13,406,328	2,519,098	11,931,503
Add issued on conversion of 7½% unsecured convertible debentures			910	13,000
			2,520,008	11,944,503
				$15,395,223

(b) Common shares reserved for issue

	Expiry date	Price	Number of common shares reserved
Upon conversion of 7½% unsecured convertible debentures, Series A	June 14, 1981	$14.28	450,660

6. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Conditional sales agreements assigned with recourse and other guarantees total $6,250,000.

(b) Outstanding bank letters of credit amount to $1,982,000.

(c) The companies have commitments under leases extending through 1998 which, after recoveries from sub-tenants totalling $1,463,000, call for future net rentals of approximately $11,213,000. Net rentals for each of the next five years are as follows

1979	$1,999,000
1980	1,724,000
1981	1,472,000
1982	1,233,000
1983	1,083,000

(d) In 1975, the company amended the benefits under its pension plan. These amendments have given rise to an unfunded past service liability of approximately $1,745,000 which is being paid and charged to income over a fifteen year period.

7. INCOME TAXES

(a) At November 30, 1978 certain of the companies have losses carried forward on a tax filing basis of $1,105,000 and are available to reduce future income for tax purposes until

1982	$428,000
1983	677,000

In these companies, undepreciated capital cost of depreciable fixed assets exceeds net book value by $203,000.

The income tax effect of the above two matters has not been recognized in the accounts.

(b) Income taxes for 1978 have been reduced by $1,222,000 because of inventory allowance deductions allowed for income tax purposes.

8. EARNINGS PER SHARE

(a) The calculation of basic earnings per share, after adjusting for second preference share dividends, has been made using the weighted monthly average number of common shares outstanding in each year.

(b) Fully diluted earnings per share for 1978 are as follows

Income before gain on sale of fixed assets and extraordinary item	$1.32
Gain on sale of fixed assets (net of income taxes)	0.19
Income before extraordinary item	1.51
Net income	1.90

In calculating fully diluted earnings per share the weighted monthly average number of common shares outstanding has been calculated assuming full conversion of the convertible debentures and second preference shares on the dates of issue.

Net income used in this calculation, both before and including the extraordinary item, reflects a reduction in interest costs and the related effect on income taxes resulting from the above assumptions.

9. ANTI-INFLATION ACT

The company is subject to the Anti-Inflation Act, as from October 14, 1975, which provides for the restraint of profit margins, prices, dividends and compensation. Management is of the opinion that the company has complied with the Act.

10. COMPARATIVE FIGURES

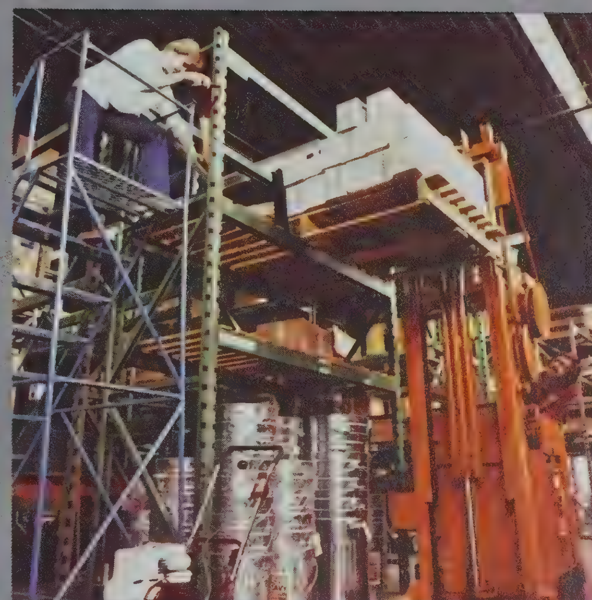
Losses of closed branches in 1977 include the operating results of branches closed in 1978 and 1977.

Five Year Financial Summary

	1978	1977	1976	1975	1974
*Sales	**$ 292,826,104**	$ 280,446,097	$ 289,203,489	$ 255,386,891	$ 220,366,230
Depreciation	**1,952,064**	2,012,865	1,903,882	1,601,259	1,174,572
Interest on long-term debt	**3,548,402**	3,991,262	4,597,724	3,265,894	2,384,372
Net income					
Including extraordinary items	**5,801,919**	3,127,978	3,472,474	7,715,164	8,014,988
Before extraordinary items	**4,545,036**	3,055,060	3,304,801	7,586,139	7,385,078
Dividends					
Preference shareholders	**207,043**	215,155	244,859	253,862	268,784
Common shareholders	**1,209,387**	1,208,997	1,207,596	1,200,726	892,339
Working capital	**46,800,580**	46,160,555	46,243,407	52,060,227	35,155,009
Fixed assets, net	**30,199,435**	28,557,413	29,419,195	29,766,167	19,884,378
Long-term debt	**31,040,747**	34,362,510	36,508,127	43,192,561	22,556,281
Shareholders' equity	**48,073,300**	43,674,811	42,112,643	40,469,383	33,837,354
Total assets	**187,691,986**	168,677,301	180,436,146	181,240,275	137,153,964
Earnings per common share					
Including extraordinary items					
Primary	**2.22**	1.16	1.28	2.99	3.13
Fully diluted	**1.90**	1.05	1.14		
Before extraordinary items					
Primary	**1.72**	1.13	1.21	2.94	2.87
Fully diluted	**1.51**	1.03	1.09		
Dividends paid per common share	**.48**	.48	.48	.48	.36
Equity per common share	**$17.71**	$15.97	$15.27	$14.43	$11.89
Common shares outstanding	**2,520,008**	2,519,098	2,517,958	2,521,908	2,478,719
Number of branches	**295**	309	332	348	272

*Before eliminating sales of closed branches

Operations Review



Automotive

Automotive: Tapping the Potential

Acklands' principal business is the sale of replacement auto parts and accessories. The market for replacement parts is not only one of the most stable but also one of the fastest-growing in Canada. Stability arises from the central role of the automobile in our economy. The growth reflects the fact that car usage continues to rise as technology offsets the problems of fuel prices and energy conservation.

A Growing Market

Automobile registrations have climbed for more than 40 successive years. This is the single most important factor influencing the sale of replacement parts.

Car ownership and the number of drivers continue to grow. Government figures indicate a 5 per cent compound increase in registrations to the year 2000. A higher percentage of our population will be of driving age and more women are obtaining their licences. By 1990, 85 per cent of the population will be driving, up from 70 per cent in 1960.

Increasingly, these drivers will own or lease their own cars. This expansion in car ownership will continue through the 80's because of the number of people entering the 25 to 44 year-old age group. This is when most household formations take place. It is this sector of the population which buy and use cars most frequently.

Reinforcing this demographic factor is the continuing increase in the number of two-car families. In the U.S., 48 per cent of households own two or more cars. In Canada, the proportion is half that number. But, in the past seven years, the incidence of Canadian households owning two or more cars has increased by nearly 50 per cent. Further growth in the automotive parts aftermarket has resulted from rising numbers of trucks, motorcycles, snowmobiles and power-driven lawn care equipment.

North Americans' addiction to personal mobility is stronger than ever. Despite higher gasoline prices, average miles driven has continued to increase. Improved fuel economy on new cars and more frequent maintenance of old cars are offsetting price hikes. In the future, we will also see more diesel engines, further vehicle weight reductions and other measures to keep operating costs in line with incomes.

Repair Costs Soar

The amount of money spent on repairs has increased rapidly in recent years. The main reasons are escalating labour rates, the complex new systems being installed in today's automobile and the aging of the vehicle population.

The most significant result of this inflation is the rise of the do-it-yourself motorist. Approximately half of all Canadian motorists now do at least some repairs on their own vehicles—twice the number for 1970. For older cars, the percentage is higher. For example, the Motor Equipment Manufacturer's Association estimates that in cars four years old, 55 per cent of the replacement parts are not professionally installed.

Do-it-yourself is a billion dollar market. And it is growing fast. As estimated by one U.S. management consulting company, the North American market for self-installed auto parts will increase at an average annual compound rate of better than 10 per cent through to the end of this century.

According to recent studies, 57 per cent of all oil filters are now self-installed by the motorist. Last year, a major filter manufacturer analysed its market and found that 77 per cent of motorists interviewed were able to name a specific brand of filter compared to just 67 per cent the year before. In the same study, the number of self-installers of air filters had increased more than 27 per cent over a three year period. For oil filters, the increase was nearly 40 per cent.

Competition Between Channels

The growth in do-it-yourself has brought into focus the conflict between the two principal distribution channels for replacement auto parts.

In the traditional channel, parts flow from the manufacturers to the warehouse distributor who then sells to wholesale jobbers. There are about 2,500 of these jobbers in Canada who in turn sell to the service station and garage, car dealer, body shop and small fleet operator.

In the past two decades, this channel has been challenged by two newcomers: the supermarket style discount store and the franchised repair specialist.

The mass merchandisers typically have a two part strategy. They sell high volume parts which they buy direct from the producer and they operate large scale service departments. Both are supported by heavy price and item advertising.

But the slow erosion of the traditional channel appears to have ended. In fact, there are some signs that it may now reverse. Many jobbers are moving into retail/wholesale programs like Bumper to Bumper, which are aimed at the growing do-it-yourself market. Those service stations which have survived oil company divestiture programs are larger, more professional and more able to compete.

In the U.S. where these trends are more mature, wholesale jobbers with retail programs are now averaging better than 30 per cent of their total sales from purchases by the motorist. Although the overall market is increasing, much of this volume originally belonged to the discount department stores. Also, the oil companies have already completed much of their rationalization of service stations. Despite the fact that industry spokesmen estimate that a further 9,000 of Canada's remaining 29,000 service stations will be closed as part of the switch to self-serve gasoline outlets, the number of service bays will not decline by an equivalent amount. Many of the surplus service stations are, in fact, sold to the lessee for use as repair garages.

Meanwhile, the larger and better equipped service stations which remain are generally managed by trained and motivated people who are slowly changing the public's perception of their industry. They generally stay open longer than other repair facilities and they are convenient. More effective merchandising programs developed by the oil companies, as well as programs like Bumper to Bumper, will help them recover market share.

Industrial

Industrial: Planning for Growth

Sales for Acklands' industrial products were stable during the year despite lengthy strikes in the natural resource industry, a construction slowdown and depressed capital spending.

However, the outlook for 1979 is promising. Capital spending is on the rise and demand shows encouraging signs of a turnaround. We are also convinced there are tremendous opportunities for Acklands, as the country's largest industrial supermarket, which can be exploited through a more intensive marketing effort. Management has therefore devised a strategy of renewed emphasis and growth for the industrial supplies and equipment product group. Following are some of the components:

☐ Consolidation of small branches in urban centres to achieve better utilization of inventories and facilities.
☐ Investment in new distribution centres enabling economies in product handling and increased productivity.
☐ More emphasis on broadening markets and customer development, especially smaller industrial accounts, so as to be less vulnerable to shutdowns and delays in major capital projects.
☐ Introduction of new sales techniques and training.
☐ Expansion of the branch network in areas of significant new resource development.

Capital Spending Upswing

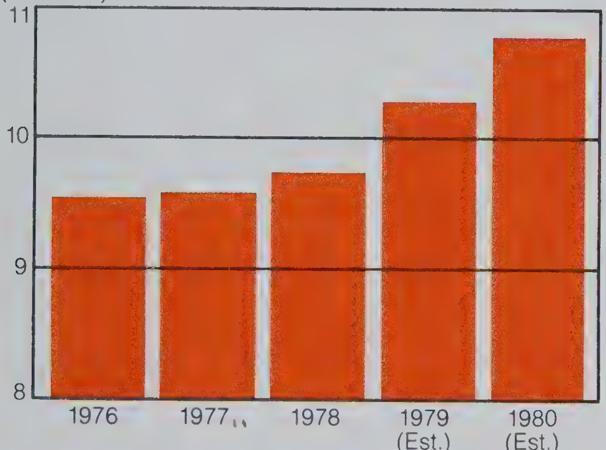
Higher corporate profits in 1978 are resulting in increased capital spending. The benefits should filter through to Acklands in 1979.

Capital spending creates the projects and purchases the machinery which we then service and supply. In the last quarter of 1977, only 21 per cent of business people surveyed thought it was a good time for new investment in plant equipment. One year later, it was 38 per cent and rising.

Spending patterns followed the change in mood. In the first quarter of 1978, capital spending was down from the year before. But, by the fourth quarter, it was up 19.6 per cent. Estimates for 1979 indicate an overall increase of 11.6 per cent according to Statistics Canada or a gain in real dollars of 3 to 5 per cent as predicted by the Federal Department of Industry, Trade and Commerce.

Business Investment in Machinery and Equipment in Canada

(1971 Constant Dollars)
($ Billions)



Source: Conference Board

Time to Expand

Given the return of more buoyant capital spending, Acklands' industrial strategy couldn't be more appropriate. Among actions taken in 1978:

☐ Contracts were let for a new, automated Vancouver warehouse which will be among the most modern in the country.

☐ Plans were finalized for establishing 12 new branches in Western Canada in the current year.

☐ A total of 4 new branches were opened in Alberta to service new resource developments in that province. Several major capital projects were behind schedule, but the negative impact was more than offset by improved volumes from smaller accounts. Profits were therefore substantially above target levels.

☐ The Saskatchewan Industrial Division was expanded. A few years ago, Acklands was primarily an automotive operation in this province but new emphasis on the industrial side has captured a solid base of business, particularly from natural resource industries.

☐ Ontario operations were amalgamated and the product mix rearranged in preparation for a new marketing strategy in 1979. This strategy includes more aggressive sales techniques with support from suppliers, a closer matching of product lines in each branch with the needs of local industry, warehousing of fewer product lines but in greater depth, market studies for each branch to locate new sales opportunities and more sales planning.

☐ Greater commitments were made to selected product lines. For example, one of our more promising industrial product lines in Western Canada is refrigeration equipment and servicing. In 1978, refrigeration sales more than doubled. Market demand is strong and employers increasingly recognize the necessity for a comfortable work environment and its contribution to productivity. Investment in this product line was strengthened substantially in 1978 to expand our market penetration and further commitments are planned for 1979.

Welding supplies and equipment is another product line which offers opportunities for expansion. Welding sales have steadily increased and trading markets for this product line have been broadened.

Leisure and Electronics

Leisure: An Optimistic Outlook

Sales for the leisure product group were $23.2 million, or approximately 8 per cent of total company volume. Profits showed a dramatic turnaround, the result of reorganization in the past two years.

Both inventory and marketing efforts have been concentrated on a relatively smaller number of products with exceptional potential. This strategy has yielded a greater market share for those products merchandised and helped restore a more respectable level of profit.

The principal leisure-related products now being sold are motorcycles, lawn care equipment, chain saws, small tractors, boats and boat trailers.

Overall trends support an optimistic outlook. Spending on recreation equipment increased at an average annual rate of 13.7 per cent from 1971 to 1978 in constant dollars. This rapid growth is in response to increased public awareness of the need for exercise and relaxation. Shorter working hours and higher incomes are also important factors. Comparable growth is expected in the 1980's.

One of the most important products merchandised is a complete line of Honda motorcycles. The demand for new motorcycles now totals more than $200 million a year at the retail level. Acklands is aiming for a substantially increased share of this growing volume.

It was a very successful year for sales of Toro lawn care equipment, particularly to the institutional market. Further gains are expected in 1979.

Another successful product is Homelight chain saws. The decision by a major competitor to suspend manufacturing of chain saws has opened up the opportunity to recruit hundreds of new dealers to Acklands. Sales of chainsaws increased 140 per cent in 1978.

One product line with outstanding potential is the Yanmar line of small tractors. The market is currently dominated by gasoline engine models. Acklands carries a series of diesel models which are more economical to operate, easier to service and more dependable. Yanmar marine engines are also being successfully marketed. The number of dealers carrying Yanmar doubled in 1978.

The H.C. Paul division is now marketing low cost fibreglass boats under its own Echo label. We have also secured a franchise for aluminum boats which will give us a broader range of fishing craft and runabouts. Sunray boats will now be distributed by H.C. Paul. This product line includes a wide range of outboards and inboards. In addition, we have added canoes to our boating products.

Electronics and Home Entertainment: Picture Improving

This product group ended the year in a loss position but stronger merchandising and sales efforts resulted in better performance over 1977. Intensified competition for home entertainment products and reorganization in the Canadian Electronics Division reduced sales by 18 per cent to $18.2 million or 6 per cent of total company volume.

Sales of imported Zenith home entertainment products were adversely affected by tariff regulation. Demand has improved however with the introduction of the new System 3 line of televisions. Canadian Electronics, Acklands' industrial electronics subsidiary, is now operating with five branches, four of which are in Alberta. The other is in Winnipeg. This division was profitable in 1978.

Retailing Auto Parts

Last year, we talked about our plans for developing a national chain of Bumper to Bumper stores. This year, that plan is a reality.

As of March 1, 1979, there are 187 Bumper to Bumper stores in Canada, from coast to coast. Of these, 59 are company-owned and 128 are independents. Most locations are a combination retail store and wholesale auto parts outlet.

And the expansion continues. This year, we expect to open another 60 locations, with greater emphasis on the Eastern Canadian market. At present, 85 per cent of our locations are in Western Canada. This concentration reflects the fact that Acklands is more established in the west and our market penetration in this region is considerably greater.

Most of the new stores opened in 1979 will again be independently owned. Inquiries from owners of wholesale auto parts outlets continue to flow in from all over Canada. These are carefully screened and on average, only one in three is accepted. Preference is being given to financially stable, well-established operations with adequate facilities.

Creating An Image

Our two priorities in 1978 were opening up locations and beginning the work of establishing an identity in the marketplace.

The key to creating an identity is consistency. Every Bumper to Bumper store looks alike. Although most of them are independently owned, there has been no compromise on colour schemes, point of purchase displays and signage. The conversion program is handled by Acklands' own building teams who install proper floors, ceilings, lighting and shelving. Each location is assigned to one of our service reps who regularly checks the layout, displays, pricing and availability of special offers.

Advertising is managed directly by Acklands. Last year, our ads appeared twice a month in over 100 daily and weekly newspapers across the country featuring price and item promotions. This year, we will launch a $500,000 radio campaign, supported by billboards and direct mail, while continuing with the newspaper campaign. All advertising and promotion is co-ordinated by in-house Acklands' personnel to ensure consistency of theme and pricing and for greater cost efficiency.

In 1978, a total of $750,000 was spent on advertising and promotion of the Bumper to Bumper program. This year, we have budgeted for $2 million, nearly a three-fold increase.

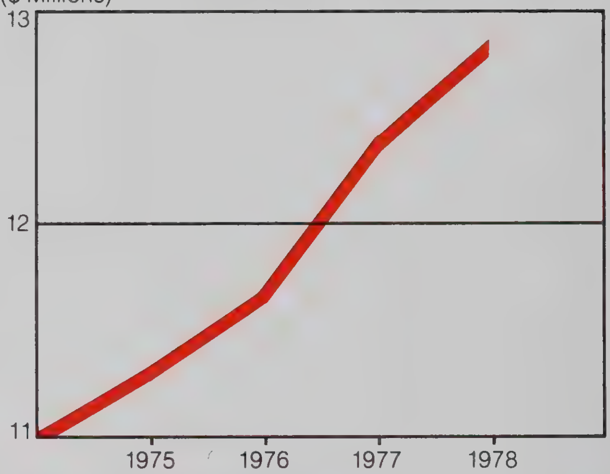
Surveys show that consumers prefer nationally advertised chains because they believe these merchandisers stand behind their reputation and product. Our marketing strategy is designed to position Bumper to Bumper as a national merchandiser as quickly as possible.

All items in our advertising are carefully selected and priced to offer competitive value. Bumper to Bumper company-owned outlets and affiliates are reporting

Registration of Motor Vehicles

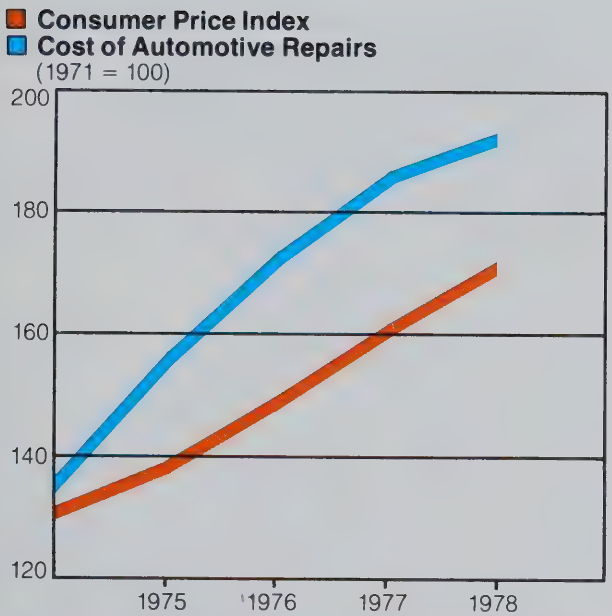
(Cars, Trucks, Motorcycles)

($ Millions)



Source: Statistics Canada and
Maclean-Hunter Research Bureau

impressive increases in business since joining the program. Most stores are sold out of advertised specials within the period of the promotion.



Source: Statistics Canada

Emphasis on Training in Year Two

Now that a retail program exists and our advertising and marketing strategy is in place, we are turning our attention to the training of sales staff and managers. The challenge is to transform a wholesaler and his employees into effective consumer merchandisers.

What makes Bumper to Bumper unique in the retail auto parts market is the wide range of automotive products and the ability of staff people to provide the do-it-yourself consumer with sound advice.

Ten years ago, the person who fixed his own car was in the minority and he probably had some mechanical skills in the first place. Today, the do-it-yourselfer is in the majority and most of them are novices. Their motivation is saving money rather than an interest in cars.

These are the customers who want to know what product they should buy and how they should install it. They want to know how to prevent and diagnose problems so that they can save money on upkeep and gasoline. They especially want to keep their older cars on the road as long as they can.

These needs are not being met by the typical mass merchandiser. In a discount store, the merchandise has to sell itself and the consumer has to know what he wants. There is very little professional assistance and the staff usually is not knowledgeable about automotive repairs. This is a gap in the market, an opportunity which Bumper to Bumper is designed to exploit.

Most Bumper to Bumper stores are wholesale auto parts outlets when they join the program. These are the places where people who fix cars for a living buy their parts. They have been in business for years and their counter people are experienced in providing advice to service stations and garages.

During 1979, we will be paying special attention to these key personnel, providing them with training programs designed to teach them how to relate to the retail customer. Their product knowledge gives us the edge over our competitors. We have also designed a training program for store managers on the finer points of store layout, point of purchase promotion and display as well as public relations, advertising and publicity.

In 1979, there will be a campaign to attract service stations and garages to the Bumper to Bumper program. There are currently about 29,000 service stations in Canada, many of whom we hope to bring in as Bumper to Bumper authorized service centres.

Service stations require a co-ordinated marketing campaign to compete with the repair departments of large retail chains. For many, Bumper to Bumper is the answer. The authorized service centre offers the same special product and prices as the Bumper to Bumper retail store and provides professional service and installation as well. The result is a low-cost package designed to build traffic and increase our share of the traditional repair business.

The Benefits to Acklands

After one year of operation, the main benefits that have resulted from the Bumper to Bumper program are:

☐ Increased sales. Bumper to Bumper is not a franchise scheme, but is a close affiliation which demands total support. This has had a positive impact on Acklands' sales volumes. Independents must take 26 major lines, totalling about 90 per cent of their purchases, from an Acklands distribution centre. In actuality we are aiming for all of their business and in most cases we are getting it. Furthermore, many of the independent stores were only marginal customers of Acklands before the Bumper to Bumper program. Also, the special offers being developed are attracting new business from automotive jobbers who are not a part of the program.

Company-owned stores reported average sales increases of 25 to 30 per cent in 1978, largely due to Bumper to Bumper. Independents are obtaining similar results.

☐ Better inventory turnover. Combining retail with wholesale allows for more intensive use of inventories at both the branch and the warehouse.

☐ Gross margins for company-owned Bumper to Bumper stores are improving. Retail sales generate a higher markup than wholesale.

☐ A reduction of selling expenses as a percentage of sales at both the branch and warehouse. Retail sales do not require the same level of service as wholesale accounts. Deliveries and sales calls are not required and interest expenses are reduced because sales are cash-in-hand.

The program enables more efficient and intensive use of administrative systems, facilities and transportation. Branch orders cost the same amount for a warehouse to process whatever the size. Thus, a combined retail/wholesale branch producing better volume is more efficient to supply. The result is fewer small shipments and better overall productivity. The added sales also improve dollar volume per square foot for both the branch and the warehouse.

One good year doesn't make Bumper to Bumper a success. But results are highly positive and we look forward with anticipation to Year Two.

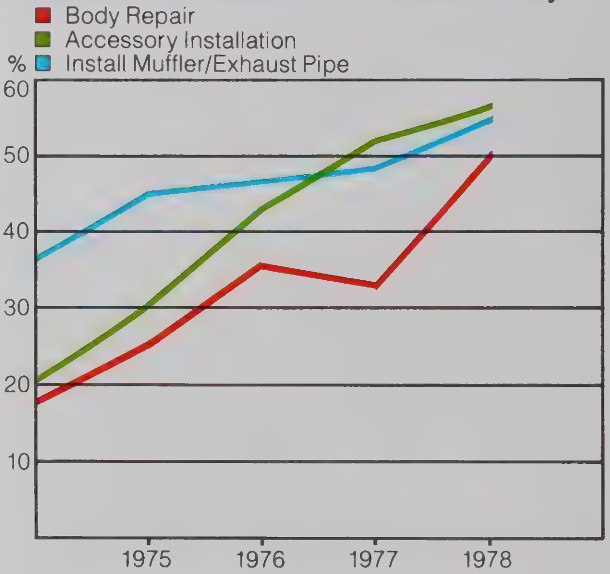
Auto Place Also Expanding

Auto Place is Acklands' second major retail venture. It combines off-the-shelf sales of auto parts with a large, specialized service department. It is therefore uniquely positioned to penetrate both the do-it-yourself and the traditional repair market.

Auto Place stores have a sales area of about 6,000 square feet. The first two stores have six service bays and the third location, opened last fall, has 10. Future locations will have as many as 12 bays.

The service department uses the most advanced electronic diagnostic equipment and repair techniques to achieve accurate, high quality work.

Automotive Consumer Do-it-Yourself Activity



Source: Home & Auto Magazine, U.S. Survey

More locations are planned in 1979, all of them in the Metro Toronto area where the first three are located. The plan is to concentrate in this highly populated market to achieve economies of scale in advertising and administration. The concept will then be taken to other major urban areas in Canada.

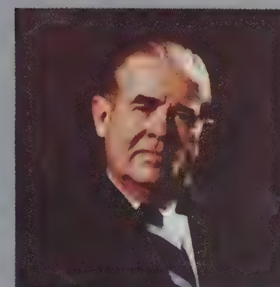
Auto Place has not yet reached an economical size but management is optimistic about the long range potential for this endeavor.

Board of Directors

Acklands

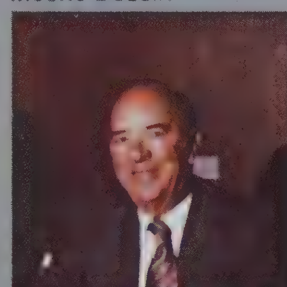

Philip Ashdown

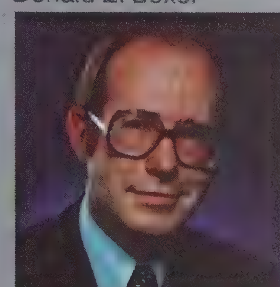

Moshe Bessin


Donald E. Boxer

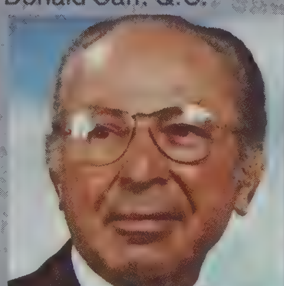

Michael H. Caine

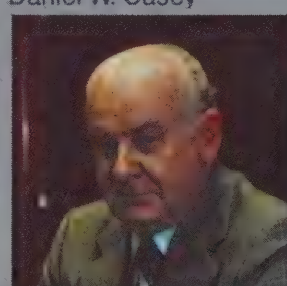

Donald Carr, Q.C.

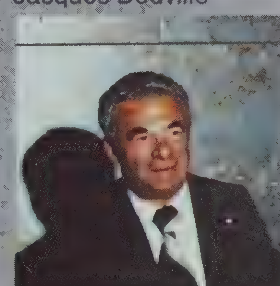

Daniel W. Casey

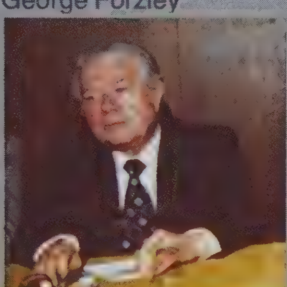

Jacques Douville


George Forzley

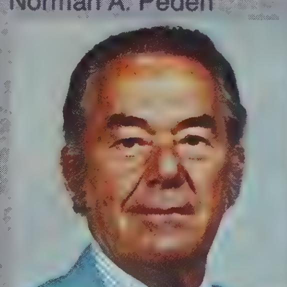

Herman Kahn

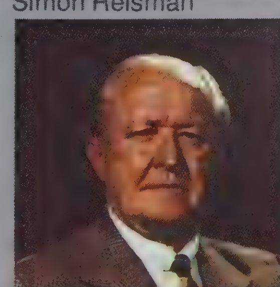

Norman A. Peden


Simon Reisman


Dr. Nathan Schecter


Nathan Starr


Samuel Wallin


Donald J. Wilkins

Donald J. Wilkins, Chairman. Former President and Chairman of Fry & Company Limited, Toronto investment dealer and a director of several major Canadian companies.

"Our objective at the Board level is active participation in corporate affairs to provide adequate direction. We take on assignments to review specific operations and we make sure we have the information resources needed to make intelligent decisions."

Board of Directors

Philip Ashdown
Provincial Judge, Winnipeg

Moshe Bessin
President, Mindy's Limited, Toronto

Donald E. Boxer
Director, Burns Fry Limited, Toronto

Michael H. Caine
Director, Booker McConnell Ltd., London, England

Donald Carr, Q.C.
Senior Partner, Goodman & Carr, Toronto

Daniel W. Casey
Retired Banking Executive, Toronto

Jacques Douville
Executive Vice-President and Director General, Banque Canadienne Nationale, Montreal

George Forzley
Senior Vice-President and Chief Operating Officer, Vancouver

Herman Kahn
Managing Director, Lehman Bros., Inc., New York

Norman A. Peden
Vice-President, Edmonton

Simon Reisman
President, Reiscar Ltd., Ottawa

Dr. Nathan Schecter
Physician, Ottawa

Nathan Starr
President and Chief Executive Officer, Toronto

Samuel Wallin
Vice-President, Queen-Yonge Investments Ltd., Toronto

Donald J. Wilkins
Chairman of the Board, Toronto

Executive Committee

Moshe Bessin
Donald E. Boxer
Donald Carr Q.C.
Daniel W. Casey
George Forzley
Nathan Starr
Donald J. Wilkins

Compensation Committee

Donald Carr, Q.C.
Daniel W. Casey
Simon Reisman

Audit Committee

Philip Ashdown
Donald E. Boxer
Daniel W. Casey

Directory

Officers and Staff

Donald J. Wilkins
Chairman of the Board

Nathan Starr
President and Chief Executive Officer

George Forzley
Senior Vice-President and Chief Operating Officer

Norman A. Peden
Vice-President and Director

Douglas G. Cumming
Vice-President, Western Operations

Donald J. Dawson
Vice-President, Eastern Operations

Arnold Glass
Vice-President, Finance

Samuel H. Blank
Vice-President, Director of Corporate Purchasing

Blake E. Forrest
Vice-President, International Division

John F. Driscoll
Manager Corporate Affairs and
Executive Assistant to the President

Paul Burns
Assistant to the Chairman of the Board

Leonard J. Kenna
Vice-President, Special Projects

Allan Ireland
Data Base Manager

Leonard Lavoie
Data Processing Manager

Allan R. Smith
Assistant to the Senior Vice-President and
Bumper to Bumper National Co-ordinator

David M. Craig
Vice-President, Credit

Samuel N. Smilski
Comptroller

Alex Kozma
Vice-President, Internal Audit

Kiyo Nonomura
Merchandising Manager, Corporate Automotive Division
and Assistant Director of Purchasing

Wallace Greenspoon
Director of Marketing Services, Auto Place

Peter L. Sarantos
Corporate Transportation Manager

Victor A. Aker
Vice-President and General Manager, British Columbia

Theodore Stokes
Vice-President and General Manager, Saskatchewan

Donald T. Langton
Vice-President and General Manager, Ontario
Automotive Division

Andre Rousseau
Vice-President and General Manager,
Maurice Rousseau Et Cie

Dave Lambert
General Manager, Acklands, Western Quebec

Harry C. Paul
Vice-President, H.C. Paul Ltd.

Lloyd Utigard
Vice-President and General Manager,
Western Automotive Rebuilders

E. Roland Williams
Assistant General Manager, British Columbia

Allan Strachan
General Manager, Acklands, Southern Alberta

Al Stambaugh
General Manager, Acklands, Northern Alberta

Arnold Harbour
Assistant General Manager,
Manitoba and Northwestern Ontario

Joseph J. Rorai
General Manager, Ontario Industrial Division

Jack Davison
Provincial Marketing Manager, Saskatchewan

Vivian Daly
General Manager, H.C. Paul Ltd.

Robert Govenlock
Assistant to the Vice-President, Western Operations

Corporate Data

Auditors
Thorne Riddell & Co., Winnipeg

Transfer Agents and Registrars

Common Shares
The Canada Trust Co.
Vancouver, Winnipeg, Toronto and Montreal

Second Preference Shares
Series A and
7½% series A Debentures
The Crown Trust Company
Vancouver, Winnipeg, Toronto and Montreal

Counsel
Sokolov, Klein & Company, Winnipeg

Fiscal Agents
Burns Fry Limited, Toronto

Share Listings
Toronto, Vancouver and Winnipeg Stock Exchanges
Ticker Symbol: ACK

Head Office
125 Higgins Avenue
Winnipeg, Manitoba R3B 0B6
Telephone (204) 956-0880

Executive Office

100 Norfinch Drive
Downsview, Ontario
M3N 1X2
Telephone (416) 638-7900

Major Affiliate Companies

Autolec
Canadian Electronics
Gillis & Warren
H.C. Paul
Major Appliances
Maurice Rousseau Et Cie
Modern Automotive Warehousing
Moto-Rite
Regent Automotive
Taylor, Pearson & Carson
Western Automotive Rebuilders
Western Warehouse Distributors
Westward Distributors

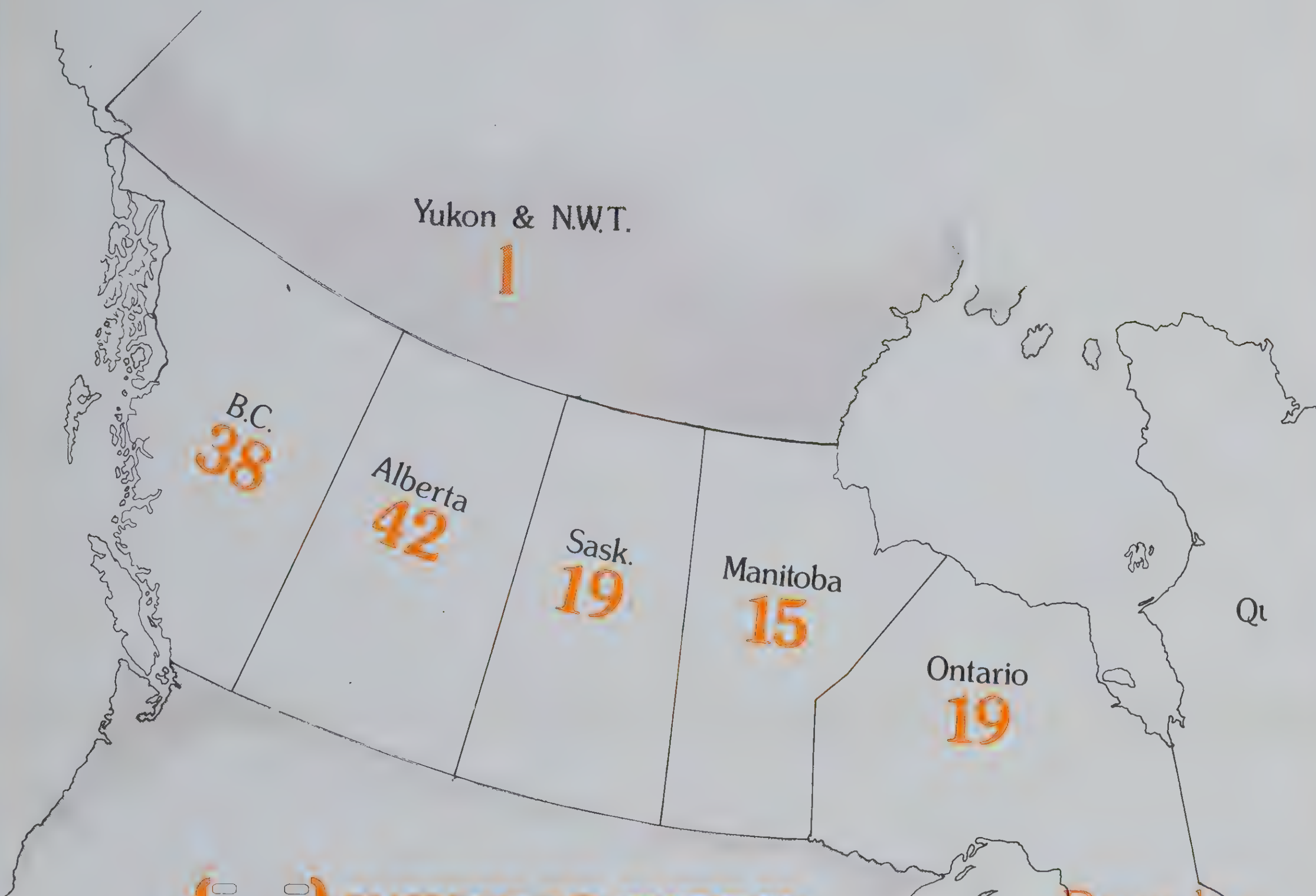
British Columbia Industrial Warehouse Distribution Centre

Acklands

2

INTERIM REPORT TO SHAREHOLDERS
RAPPORT TRIMESTRIEL AUX ACTIONNAIRES

Six months
ended
May 31, 1978



BUMPER TO BUMPER

134 stores and still growing!

134 magasins en pleine expansion!

Pour les
six mois
terminé
le 31 mai
1978

Acklands Limited • **Acklands Limitée**

2 SECOND QUARTER '78
SECOND TRIMESTRE '78

To Our Shareholders:

Net income and earnings per share improved considerably in the first half of 1978 over the comparable period of 1977. Sales volume was only slightly higher.

Sales revenue totalled $128.7 million, a modest gain over last year's level but yet encouraging in light of a sluggish economy and lost sales from discontinued operations. Pre-tax operating income was over $700,000, a dramatic turnaround from an operating loss sustained in the first six months of 1977.

Net income was nearly $550,000 compared to $142,000 in the equivalent period of last year. Included in net profit for the first half of 1978 is a gain on the sale of fixed assets of $71,000 or 3¢ per share. The 1977 profit figure includes a gain on the sale of fixed assets of $317,000 or 13¢. Earnings per common share from operations were 15¢ in the current period compared to a 12¢ loss in the first six months of last year. Total per share profits including the gain on sale of fixed assets amounted to 18¢ for the first half of 1978.

The results were consistent with Acklands' budgeted profit forecast and represent the most significant earnings improvement of the past ten quarters. Continued attention to the task of managing the company's $86 million in inventory plus emphasis on sales and cost reduction contributed to the better profit picture.

Although the performance of all Acklands' product groups and divisions have improved, sales and profits of automotive parts highlight the first half results. The outlook for this major segment of the company's business continues to be favourable. This optimism is bolstered by a study recently published by the Automotive Market Research Council. The Council predicts that by 1981, there will be more automobiles ten years and older in use than in any other time in history. They also state that the two to 10 year old vehicle population will proliferate at an unprecedented rate. The pace of demand for parts, accessories and equipment should quicken in line with these expectations.

Acklands' Bumper to Bumper Retail/Wholesale merchandising program is starting to have a positive effect on the company's sales performance. 134 locations are now either open or in the process of conversion and enquiries from independent wholesale automotive jobbers to affiliate with Bumper to Bumper are numerous. Plans for further rapid expansion are actively underway.

Although consumer spending and general merchandise sales are expected to weaken as the year progresses, the near term outlook for Acklands remains positive. Profit projections continue to be solidly optimistic and the strong and steady business improvement experienced in June points to more rapid growth.

The company has undergone major structural and merchandising changes which are resulting in significantly better market penetration. Despite a less than robust economy, Acklands' market position should improve. The company is better organized and more efficient now than at any time in its history and we expect sales and earnings to accelerate as opportunities for growth in the do-it-yourself auto parts market are undertaken.

Acklands broke ground in Burnaby, British Columbia for a new 110,000 square foot industrial products warehouse. This facility will also accommodate the company's Importing Division. The warehouse will feature space-age mechanization systems for product storage, handling and retrieval.

Your continuing support is appreciated.

On Behalf of the Board

N. Starr

Nathan Starr
President

Executive Offices
100 Norfinch Drive
Downsview, Ontario M3N 1X2

10 July 1978

À l'attention de nos actionnaires,

Le revenu net et les bénéfices par action se sont considérablement accrus au cours du premier semestre 1978, comparativement à la même période de 1977. Le volume des ventes cependant n'en est que légèrement plus élevé.

Le produit des ventes, totalisant $128.7 millions, bien que signifiant un gain modeste sur celui de l'année passée à cette date s'avère cependant encourageant, en considération de l'économie ralentie et de la diminution des ventes causée par l'interruption de certaines de nos activités. Le revenu d'exploitation pré-fiscal excédant $700,000 illustre de manière saisissante, un appréciable renversement de la situation comparativement aux pertes d'exploitation subies pendant les six premiers mois de 1977.

Le revenu net approchait $550,000 en comparaison aux $142,000 réalisés pendant la période équivalente de l'année dernière. Un profit de $71,000 ou 3¢ par action réalisé sur la vente des immobilisations est inclus au profit net du premier semestre 1978. La somme des profits de 1977 comprend un bénéficie de $317,000 ou 13¢ par action sur la vente des immobilisations.

Le gain sur exploitation était de 15¢ par action ordinaire pour la période courante comparé à une perte de 12¢ pendant le premier semestre de l'année dernière. Le total des profits par action, y compris le bénéfice réalisé sur la vente d'immobilisations, s'élevait, pour le premier semestre 1978 à 18¢.

Les résultats semblent confirmer les prévisions du budget établi par Acklands eu égard aux profits et représentent l'accroissement le plus important des gains, constaté au cours des dix derniers trimestres. L'attention assidue accordée à l'administration du stock de la compagnie, évalué à $86 millions ajoutée à l'importance placée sur les ventes et la réduction des prix de revient ont largement contribué au rehaussement de la somme des profits.

Bien que le rendement des groupes et services Acklands consacrés aux articles de production se soit amélioré, les ventes et profits sur pièces de rechange automobiles illustrent les résultats les plus importants de ce premier semestre. L'aspect général de ce segment majeur des activités de la compagnie demeure favorable. L'optimisme prévalent est rendu encore plus vif grâce à l'a récente publication d'une étude effectuée par le Conseil de Recherche auprès du Marché Automobile. Le conseil prédit en effet qu'en 1981, plus de voitures de dix ans et plus circuleront, qu'à quelque période que ce soit dans le passé. Il prédit également que les propriétaires de voitures de deux à dix ans d'ancienneté prolifèreront pour atteindre éventuellement un record sans précédent. Le rythme des demandes de pièces de rechange, accessoires et équipement se doit par conséquent d'accélérer en fonction de ces prévisions.

Le programme Acklands "Bumper to Bumper" de vente au détail et en gros commence à affecter positivement le rendement de la compagnie dans le domaine des ventes. Plus de 130 locaux sont désormais ouverts ou en voie de transformation et les demandes de renseignements émanant d'entrepreneurs grossistes indépendants spécialisés dans le domaine de l'automobile quant à leur affiliation possible au programme "Bumper to Bumper" ne cessent d'augmenter. Des projets visant à une expansion encore plus rapide sont activement considérés pour exécution.

Bien que les dépenses effectuées par la clientèle au même titre que les ventes de merchandises soient estimées devoir faiblir au fur et à mesure que l'année s'avance, les perspectives d'ensemble à court terme demeurent positives pour Acklands. Les prévisions relatives aux profits se maintiennent fermement sur le plan optimiste tandis que l'amélioration constante et stable des affaires constatée en juin semble annoncer une expansion plus rapide.

La compagnie a entrepris des changements majeurs structuraux et de commercialisation résultant en une meilleure et plus vaste pénétration du marché. En dépit d'une économie instable, la position d'Acklands sur le marché devrait s'améliorer. La compagnie est en effet plus efficace et mieux organisée que jamais auparavant et nous nous attendons à ce que nos ventes et profits accélèrent nos possibilités d'expansion dans le domaine des pièces de rechange vendues aux "bricoleurs".

Acklands vient de poser la première pierre d'un entrepôt d'articles industriels de 110,000 pieds carrés à Burnaby en Colombie Britannique. Ces locaux sont également destinés à abriter le service d'importation de la compagnie. L'entrepôt sera équipé de systèmes mécaniques dignes de l'ère spatiale pour le rangement, la manutention et la localisation des marchandises.

Permettez-nous de vous affirmer que votre soutien assidu est particulièrement apprécié.

Au nom de la Commission

N. Starr

Nathan Starr,
Président

Bureaux administratifs
100 Norfinch Drive
Downsview, Ontario M3N 1X2

le 10 juillet 1978

Telling the Bumper to Bumper Story

Bumper to Bumper's National advertising campaign was launched in early July in more than 60 major newspapers across the country. Radio support was also utilized. More than 100 stores participated in the promotion which marked the start of the Company's first major advertising effort. An additional 30 stores will take part in the scheduled follow-up promotion.

Advertising frequencies will be increased and broadened as more stores are added to the Bumper to Bumper network.

Press relations and publicity are major elements of a comprehensive advertising and promotional program. Press articles are valuable because they provide a unique opportunity to keep the public well informed of Corporate developments in a way not possible by paid advertising.

Articles and stories in the press offer an opportunity to communicate to a very broad audience and the impression a Company presents can be strengthened through editorial coverage and comment. Information obtained from published articles can result in the development of a strong, positive attitude with both consumers and trade customers.

Acklands' Bumper to Bumper program has received wide coverage in the general media and in the trade press. Press relations will continue to be a very important part of the Bumper to Bumper promotional effort.

Acklands Limited and Subsidiary Companies
Acklands Limitée et ses filiales

Acklands

Consolidated Statement of Income

Six months ended May 31, 1978 with comparative figures for 1977 (unaudited)

État Consolidé des Bénéfices

Pour les six mois terminés le 31 mai 1978 avec les chiffres comparatifs de 1977 (non vérifié)

	1978	1977	
SALES	$ 128,726,576	$ 127,741,829	VENTES
Cost of sales, selling and administration expenses before the following	122,435,694	121,778,087	Coût des ventes, les dépenses administrative et les dépenses des ventes avant les postes suivants
	$ 6,290,882	$ 5,963,742	
Deduct:			Moins:
Depreciation	905,711	847,841	Amortissement
Interest on long-term debt	2,086,909	1,988,642	Intérêts sur la dette à long terme
Other interest	2,587,284	3,160,494	Autres intérêts
Gain on sale of fixed assets	(71,109)	(317,428)	Profits des ventes de valeurs immobilisées
	$ 5,508,795	$ 5,679,549	
Income before income taxes and minority interest	782,087	284,193	Bénéfices avant impôts sur le revenu et profits minimales
Income taxes	234,627	139,680	Impôts sur le revenu
Income before minority interest	547,460	144,513	Bénéfices avant participation minoritaire
Interest of minority shareholders	2,823	3,431	Participation minoritaire
Net income for the period	$ 544,637	$ 141,082	Bénéfices net pour la période
EARNINGS PER SHARE			BÉNÉFICES PAR ACTION
Income before gain on sale of fixed assets	$ 0.15	$ (0.12)	Bénéfices avant gain sur vente de valeurs immobilisées
Gain on sale of fixed assets	0.03	0.13	Gain sur vente de valeurs immobilisées
Net income for the period	$ 0.18	$ 0.01	Bénéfices net pour la période
Total common shares outstanding	2,519,098	2,518,958	Nombre total d'actions ordinaires en circulation

July 10, 1978

le 10 juillet 1978

Acklands Limited and Subsidiary Companies
Acklands Limitée et ses filiales

Acklands

Consolidated Statement of Source and Application of Funds

For the six months ended May 31, 1978 with comparative figures for 1977 (unaudited)

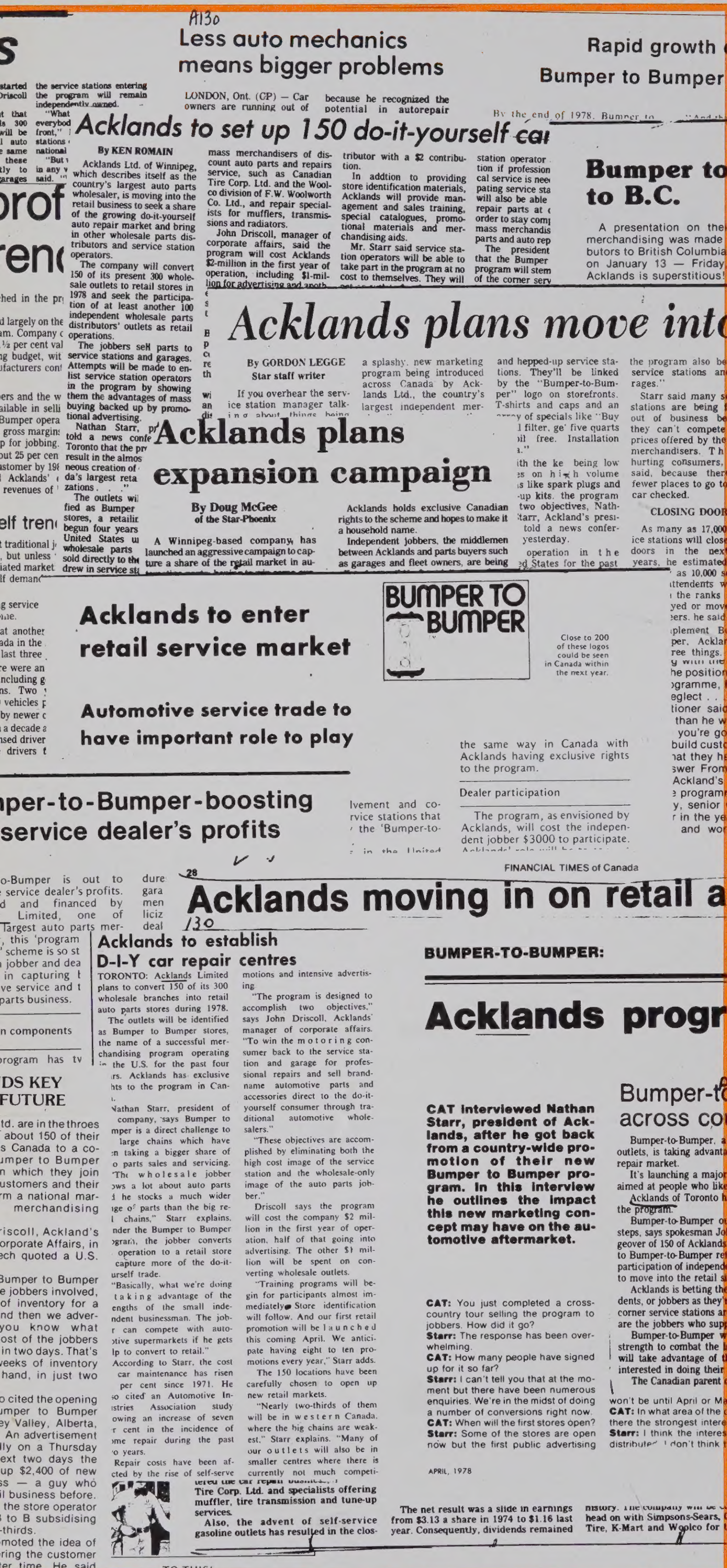
État Consolidé de la Source et de l'Affectation Des Fonds

Pour les six mois terminés le 31 mai 1978 avec les chiffres comparatifs de 1977 (non vérifié)

	1978	1977	
SOURCE OF FUNDS:			SOURCES DES FONDS:
Income	$ 544,637	$ 141,082	Bénéfice
Items not involving current funds			Postes n'exigeant aucune sortie de fonds
Depreciation	905,711	847,841	Amortissement
Gain on sale of fixed assets	(71,109)	(317,428)	Gain sur vente d'immobilisations
Funds derived from operations	$ 1,379,239	$ 671,495	Fonds provenant de l'exploitation
Proceeds from sale of fixed assets	$ 162,750	$ 1,253,703	Produit de la vente d'immobilisations
Decrease in investment in 50% owned companies	—	370,001	Diminution de la participation dans des filiales possédées à 50%
Increase in long-term debt	—	982,500	Augmentation de la dette à long terme
Discount on preference shares	—	10,543	Escompte sur actions privilégiées
	$ 1,541,989	$ 3,288,242	
APPLICATION OF FUNDS:			EMPLOI DES FONDS
Additions to fixed assets	$ 1,822,531	2,628,207	Acquisitions d'immobilisations
Reduction of long-term debt	2,789,063	3,128,797	Diminution de la dette à long terme
Dividends paid	708,106	713,663	Paiements de dividendes
Purchase and redemption of Second Preference Shares	—	41,600	Rachat d'actions deuxième privilégiées
Increase in mortgages receivable and other investments	202,742	7,019	Augmentation des hypothèques à recevoir et autres placements
	$ 5,522,442	$ 6,519,286	
Increase (decrease) in working capital	(3,980,453)	(3,231,044)	Augmentation (diminution)du fonds de roulement
Working capital at beginning of year	46,160,555	46,243,407	Fonds de roulement au début de l'année
Working capital as at six months ended May 31	$ 42,180,102	$ 43,012,363	Fonds de roulement à la fin du six mois

July 10, 1978

le 10 juillet 1978



Laissez-nous vous conter l'histoire de "Bumper to Bumper"!

La campagne publicitaire nationale "Bumper to Bumper" fut lancée, début juillet, dans plus de 60 des plus importants journaux du Canada tout entier. Elle était supportée simultanément par la radio. Plus de 100 magasins participaient à cette promotion qui marquait le point de départ du premier effort majeur de la compagnie, dans le domaine publicitaire. Il est déjà prévu que trente autres magasins participeront à la promotion complémentaire prévue.

La fréquence des annonces sera accrue et élargie au fur et à mesure que d'autres magasins joindront le réseau "Bumper to Bumper."

Communiqués de presse et annonces commerciales représentent les éléments majeurs d'une publicité globale et d'un programme de promotion. Les articles de presse sont exceptionnellement importants étant donné qu'ils offrent une occasion unique de tenir le public constamment informé des développements de sociétés, avec laquelle la publicité payante peut difficilement rivaliser.

Les articles et éditoriaux de presse offrent également la possibilité de communiquer avec un très grand nombre de lecteurs et, joints aux commentaires de presse, contribuent à renforcer l'image de la compagnie concernée. Les informations et renseignements émanant d'articles imprimés peuvent éventuellement engendrer une attitude saine et positive tant de la part du client que des sociétés.

Le programme Acklands "Bumper to Bumper" a bénéficié de nombreux reportages par tous les organismes de communications en général et par la presse commerciale en particulier. Les communiqués de presse continueront à représenter une très importante partie de nos efforts pour la promotion du programme "Bumper to Bumper."